



*Local government audit outcomes* | **MFMA**  
2018-19

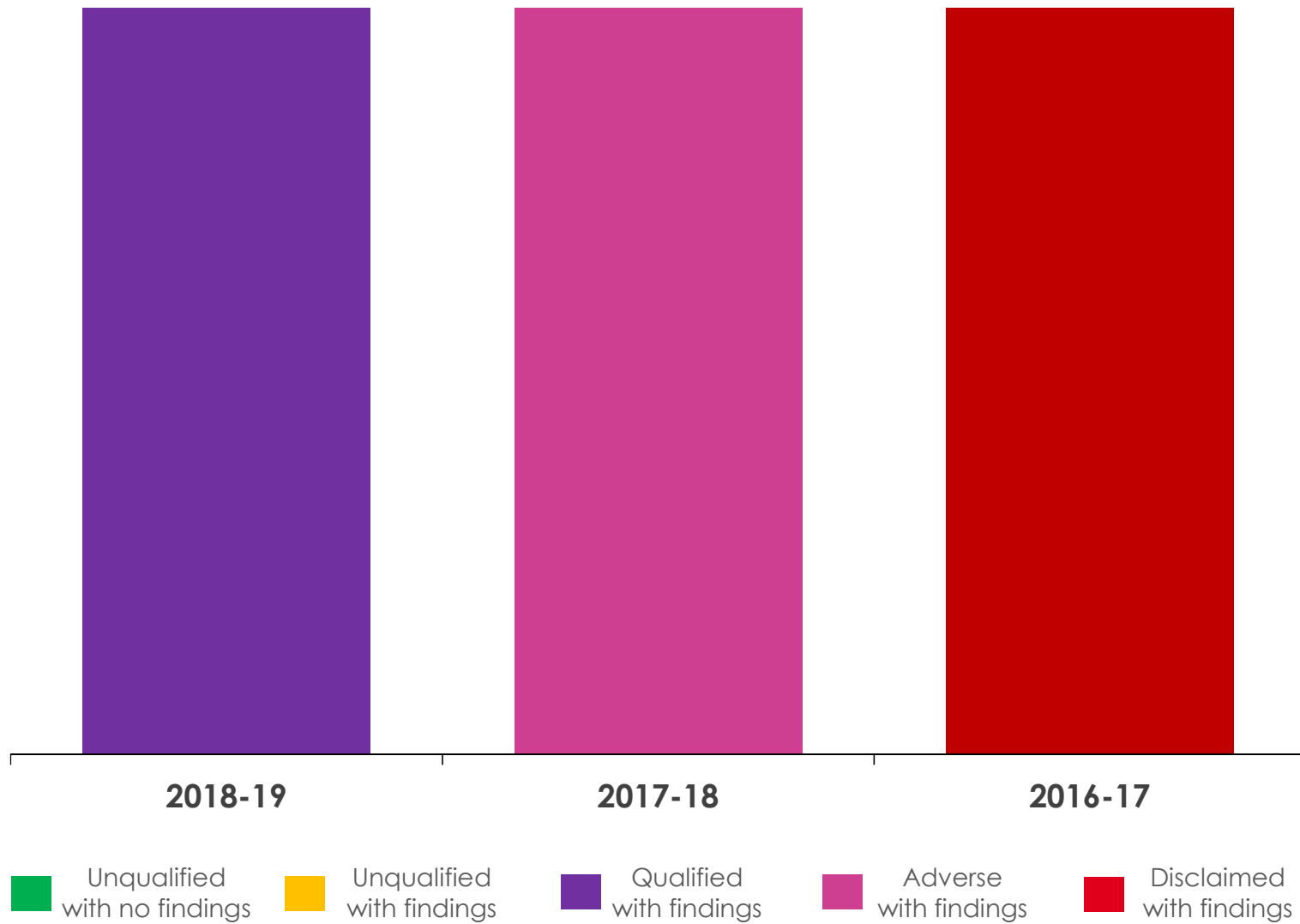
## *Mnquma Local Municipality*

*Portfolio Committee on Co-operative Governance  
and Traditional Affairs – 3 March 2021*



AUDITOR-GENERAL  
SOUTH AFRICA

# Mnquma Local Municipality – Improvement in audit outcome





# Background

- Mnquma Local Municipality serves Butterworth, Centane and Ngqamakwe, and is one of the 7 municipalities in the Amathole District.

## **The 2018-19 financial year audit revealed that:**

- The municipality improved its audit opinion over the last three years however the preventative control environment still has significant deficiencies.
- Underlying schedules did not reconcile to the Financial statements submitted for audit
- The financial statements were not supported by accurate and complete supporting documentation
- There were still material differences which could not be resolved during the audit resulting in the qualification items in the audit report.

## **The audit opinion improved to qualified**





# 2018/19 overview financial year audit outcomes

**Risk areas**

Quality of submitted financial statement	Quality of submitted performance information	Supply chain management
Financial health	Human, resource management	Information technology

Good
Concerning
Intervention required

**Predetermined objectives**

	Reported information useful	Reported information reliable
2018-19	Repeat	Repeat
2017-18	New	Repeat
2016-17		New

**Compliance with laws and regulations**

	Material misstatement	UIF&W	Asset management	Liability management	Expenditure management	Financial misconduct	Revenue management	Strategic planning and performance management	Transfer and conditional grants	Procurement management	HR management
2018-19	Repeat	Repeat	Repeat	Repeat	Repeat	Repeat	Repeat	Repeat		Addressed	Addressed
2017-18	Repeat	Repeat	Repeat	Repeat	Repeat	Repeat	Repeat	Repeat	Addressed	Repeat	New
2016-17	Repeat	Repeat	Repeat	New	N	Repeat	New	New	Repeat	Repeat	Addressed



## Qualification areas – basis for qualification

Item	Details
<b>Property, plant and equipment</b>	Not all assets were recognised in the financial statements.
<b>Receivables from non-exchange transactions</b>	There was insufficient appropriate audit evidence to support receivables for property rates and traffic fines.
<b>Payables</b>	Leave accrual, bonus accrual as well as retentions were incorrectly calculated and recorded in the financial statements.
<b>Revenue from non-exchange transactions</b>	<ul style="list-style-type: none"> <li>• The municipality recognised revenue that did not meet the definition of revenue .</li> <li>• There was insufficient appropriate audit evidence to support revenue from non-exchange transactions.</li> </ul>



## Qualification areas – basis for qualification (continued)

Item	Details
<b>General expenditure</b>	Prior year expenditure was recorded in the current financial year, and current year expenditure was not recorded in the financial statements.
<b>Expenditure: Bulk purchases</b>	There was insufficient evidence to support the amounts billed by the electricity supplier, and the amounts could not be verified.
<b>Irregular expenditure</b>	The municipality did not identify and disclose all irregular expenditure in the notes to the financial statements.





## Irregular expenditure

<b>Irregular expenditure closing balances</b>	<b>2018-19</b>	<b>2017-18</b>	<b>2016-17</b>
Irregular expenditure	R32 million	R471,4 million	R424 million

<b>Annual expenditure incurred</b>	<b>2018-19</b>	<b>2017-18</b>	<b>2016-17</b>
Irregular expenditure incurred	R21,9 million	R47,4 million	R94,2 million

**Irregular expenditure identified in the previous years was written off by council, but additional irregular expenditure that was identified by the auditors was not corrected by the municipality resulting in the reported irregular expenditure not being complete.**

- The council, through their municipal public accounts committee, investigated transactions making up the irregular expenditure balance from prior periods. The committee recommended that council condone R4613 million, as the previous MM passed away and most of the irregular expenditure was found to have been approved by him.
- The majority of the 2018/19 irregular expenditure was incurred as a result of inadequate contract management as well as extension of contracts without the proper process being followed





## Deficiencies on predetermined objectives

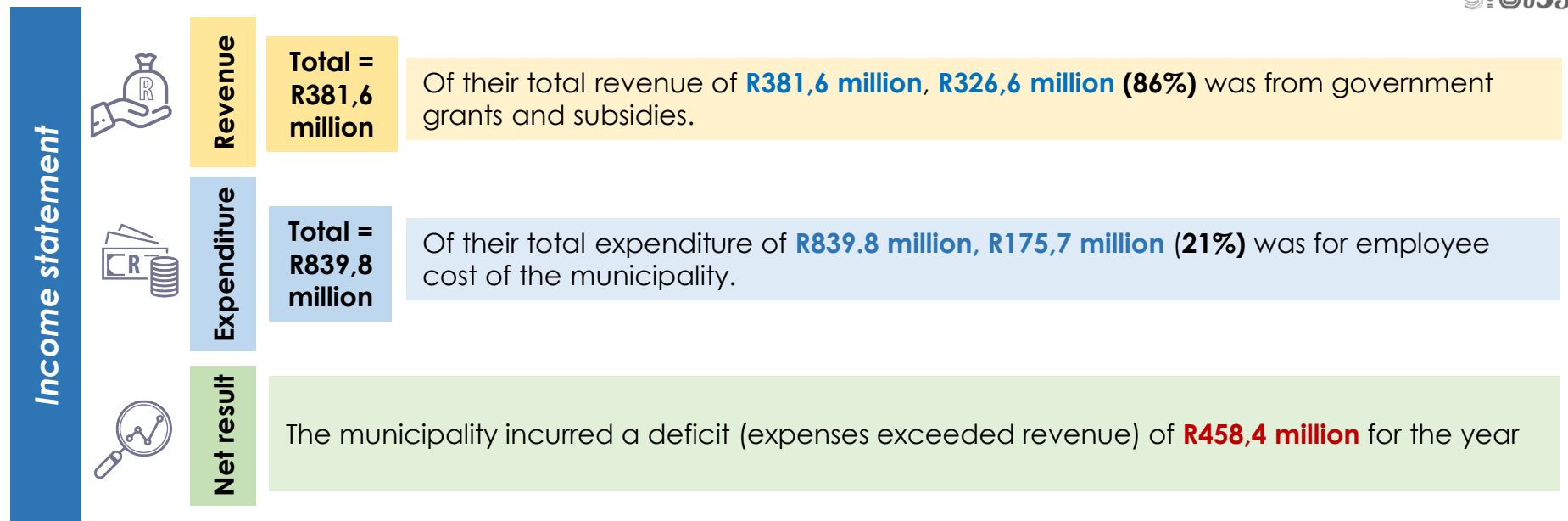
- The municipality had targets that were not well-defined, and could be accurately defined and measured.
- The municipality further did not have the necessary systems and processes in place to adequately support and verify the reported information on the following indicators:
  1. Indicator: Updated indigent register by June 2019
  2. Indicator: Number of beneficiaries subsidized with free basic electricity by June 201





# What do the financial statements say?

53257  
28760  
26035



Mnquma municipality has been consistently realizing a net deficit, mostly due to the non-cash items in the income statement.

For the 2018-19 financial year, there was a spike in expenditure due to impairment losses and revaluation losses of R123,4 million and R232,2 million respectively.

The debt collection period was 168 days.

The equitable share grant funding for the year amounted to R83 million. This was, however, not enough to cover its expenditure as the municipality was under collecting on property rates as well as income from investment properties.



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